

USACE Suppl 1
to AR 11-7
5 Jan 95

APPENDIX F

INTERNAL REVIEW REPORT
STANDARD FORMAT

LETTERHEAD

Office Symbol

Date

MEMORANDUM FOR: Commander, U.S. Army Engineer District,

SUBJECT: Audit Report No. _____, Review of the
Architect-Engineer Responsibility Management Program

1. This is our report on the subject audit. Part I of the report shows the audit objectives, our conclusions, and general information on the audit. Part II contains the findings, recommendations and management comments.

2. We appreciate the cooperation and assistance provided by _____, _____, and _____
Division personnel during the performance of this audit.

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

USACE Suppl 1
to AR 11-7
5 Jan 95

AUDIT REPORT NO _____

REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

TABLE OF CONTENTS

	<u>Page</u>
PART I - SUMMARY	
INTRODUCTION :	
Audit Entity	1
Objectives.....	1
OBSERVATIONS AND CONCLUSIONS.....	1
MANAGEMENT RESPONSE.....	1
AUDIT SCOPE AND METHODOLOGY.....	1
AUDITING STANDARDS.....	2
INTERNAL CONTROLS.....	2
ACTION ON PRIOR REPORTS.....	2
POTENTIAL MONETARY AND OTHER BENEFITS.....	2
PART II - FINDINGS, RECOMMENDATIONS AND MANAGEMENT COMMENTS	
A Accuracy of Reason Codes.....	3
B Timeliness of Processing Claims.....	5
C Calculation of Damages.....	6
D Internal Controls.....	7

INTERNAL REVIEW OFFICE

REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

Report No. _____

Date

SUMMARY

1. INTRODUCTION.

a. Audit Entity. This section will describe the organization, program, system or area that was audited. It will include information on the size, volume and nature of operations of the audit entity to provide a perspective on the significance of the audit findings and conclusions.

b. Objectives. Normally, there is an overall objective and a series of specific objectives which are related to the overall objective.

2. OBSERVATIONS AND CONCLUSIONS. The report shall contain a specific conclusion on each of the stated audit objectives, including positive comments when appropriate. In those cases where a finding exists, the applicable conclusion paragraph will also summarize the recommendations and reference the detailed finding.

3. MANAGEMENT RESPONSE. A summary of the operating official's responses to the conclusions cited in paragraph 2 should be included in the report.

4. AUDIT SCOPE AND METHODOLOGY. The scope section shall tell the reader what the auditors did or did not do. It should also show when the audit was performed and the period covered by the audit. The methodology section should explain the techniques used by the auditor to gather and analyze evidence. It should identify any assumptions made in conducting the audit and describe any comparative techniques applied and measures and criteria used to assess performance. If statistical sampling was used, it should explain the methods used for selecting or analyzing samples.

USACE Suppl 1
to AR 11-7
5 Jan 95

5. AUDITING STANDARDS. The report shall contain a statement that "the audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and accordingly, included such tests of the internal controls as considered necessary."

6. INTERNAL CONTROLS. Each report should identify the significant internal controls that were assessed and any significant weaknesses found during the audit.

7. ACTION ON PRIOR REPORTS. Each report shall include a summary section that evaluates corrective actions taken by management in response to recommendations in prior audit reports (where applicable).

8. POTENTIAL MONETARY AND OTHER BENEFITS. This section should be a summary of the potential monetary and nonmonetary benefits (Schedule of potential monetary benefits will be attached to the report, if applicable).

AUDIT REPORT NO ._____.

FINDING, RECOMMENDATIONS AND MANAGEMENT COMMENTS

A - ACCURACY OF REASON CODES

FINDING. Paragraph setting forth condition, cause and effect.

DISCUSSION.

This section should contain sufficient information to promote a clear understanding of the matters reported and to provide a convincing, but fair, presentation in proper perspective. It should set forth the evaluation criteria used by the auditor and the factual evidence found during the examination. A comparison of the factual results with appropriate evaluation criteria should lead to a clear and accurate statement of the condition. Also, this section should include the auditor's evaluation of the cause of an unsatisfactory condition. Finally this section should show the effect, i.e., the extent of risk inherent in continuing a deficient procedure, practice or control. The significance of a condition is usually judged by its effect. Use of headings and sub-headings in bold type is encouraged to properly organize the information and make the report easier to read and understand.

RECOMMENDATIONS AND MANAGEMENT COMMENTS.

A-1. The report shall contain specific and realistic recommendations addressed to the responsible offices to correct problem areas noted during the audit. The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. The recommendations should address short-term solutions to correct the immediate problem and long-range solutions to improve procedures and controls to avoid recurrence of the problem in the future. A recommendation merely to comply with regulations or laws shall not be made. Instead, the auditor shall recommend specific actions needed to cause compliance or if appropriate that the regulations or laws be changed.

USACE Suppl 1
to AR 11-7
5 Jan 95

MANAGEMENT COMMENTS. Pertinent views of responsible management officials concerning the auditor's findings, conclusions and recommendations shall be incorporated into the audit report.

AUDIT POSITION. (If applicable). This section will be included if the auditor disagrees with management's views on the audit recommendations or considers their comments to be non-responsive. The auditor shall state the reason for rejecting management's views and comments in such a way as to convince an independent third party of the correctness of the auditor's position.

A-2. Same as indicated for A-1.

Additional Findings, Recommendations, and Management comments will be alphabetically numbered (i.e. B, C, D,) and in the same format.

USACE Suppl 1
to AR 11-7
5 Jan 95

EXAMPLE OF
TRANSMITTAL MEMORANDUM

Office Symbol

Date

MEMORANDUM FOR (Commander)

SUBJECT: Resolution of Audit Report No. _____, Review of
the Architect-Engineer Responsibility Management Program - FOR
SIGNATURE

1. PURPOSE. To obtain command decision on action to be taken
on subject report (copy of report at TAB B).

2. RECOMMENDATION. That the Commander sign the memorandum at
TAB A directing the _____, _____, and _____
Divisions to take corrective actions as indicated in the
memorandum.

3. DISCUSSION.

a. On _____ the Internal Review Office issued a
report on the Architect-Engineer Responsibility Management
Program (AERMP) in the district. The report contains four
findings as follows:

(1) FAR A - Accuracy of Reason Codes. District
officials were not identifying and documenting the primary
reason for contract modifications or prorating related costs in
those instances when multiple reasons were cited for the pro-
posed change orders. Consequently, if Design Deficiency was
one of the reasons, the total amount of the proposed modifica-
tion was recorded as construction cost growth attributable to
A-E design errors and/or omissions.

(2) FAR B - Timeliness of Processing Claims. When
potential A-E liability was determined, the time required to
obtain recovery of damages was excessive. The District did not
implement effective time standards or establish appropriate
suspense files for use in monitoring progress achieved on
active A-E liability cases. We reviewed five A-E liability
cases settled during FYs 1991 and 1992 and found that it took
an average of 2.4 years to resolve a case.

USACE Suppl 1
to AR 11-7
5 Jan 95

(3) FAR C - Calculation of Damages. The initial damage assessments, which were presented to the A-E firms upon issuance of the Demand Letters, were not updated to include administrative costs incurred between issuance of the Demand Letters and final settlement of the cases. Also, the documentation of administrative costs related to the pursuit of A-E liability cases was inadequate.

(4) FAR D - Internal Controls. The District needs to strengthen practices and procedures for (i) documentation of supervisory review and approval of A-E liability determinations; (ii) recording of AERMP investigations and the sequence of events; and (iii) maintenance of official AERMP files.

b. The report contains eight recommendations to improve the above areas (Recommendations A-1, B-1, B-2, C-1, C-2, D-1, D-2 and D-3). The responsible management officials have concurred with Recommendations A-1, B-1, B-2, D-1 and D-3 and have indicated that appropriate corrective actions will be taken. They have nonconcurred with Recommendations C-1, C-2 and D-2 as follows:

(1) Recommendation C-1 is to capture all technical administrative costs incurred to pursue recovery of A-E liability damages. The procedures should include instructions to footnote the damage computations to show source of data, and to update the damage computations at time of settlement. This recommendation is based on HQUSACE guidance issued in December 1989 which states that administrative costs are "valid additional costs" that the Government has incurred as a result of A-E deficiencies. It further states that "the original demand amount should be modified if administrative costs increase significantly during prosecution of a case." The _____ Division has nonconcurred with the recommendation and states that the Command's current practice of limiting administrative damages to those sustained up to issuance of a demand letter is supported by the District Counsel. The comments obtained from District Counsel state that the Government is not entitled to recover all Government costs in pursuing A-E liability cases. The true rule would be that the Government should pursue all

USACE Suppl 1
to AR 11-7
5 Jan 95

costs proximately caused by the negligent act or omission. The proximately caused damages are generally those immediately following the negligent act. The _____ Division states that they have discussed their position with HQUSACE and have forwarded a copy of District Counsel's comments for HQUSACE consideration. However, this does not satisfactorily resolve the issue. Therefore, in the memorandum at TAB A, we are proposing that you direct the _____ Division to prepare a letter to HQUSACE, for your signature, setting forth the District's procedures for computing damages and requesting HQUSACE concurrence or suggested changes. Upon receipt of HQUSACE response, the _____ Division will be required to submit a final position paper on this recommendation for your approval. In the meantime, the _____ Division will proceed to implement the first part of the recommendation, i.e., to establish procedures to capture and record all costs incurred to pursue an A-E liability case and to footnote damage computations to show source of data contained therein.

(2) Recommendation C-2 is to include appropriate wording in Demand Letters to the effect that computed damages presented therein are preliminary costs which will be modified to include all related administrative costs and accrued interest incurred at time of settlement. The _____ Division has nonconcurred for the reasons stated in response to Recommendation C-1. However, they did indicate that they will document all claimed administrative costs to support the number of administrative hours assessed to an A-E firm. The proposed action to resolve Recommendation C-1 will also satisfy the need to resolve this recommendation.

(3) Recommendation D-2 is to document supervisory review and approval of the initial AERC determinations and, if necessary, revise the signature blocks on SPK Form 84 to provide for appropriate documentation of the higher level review. The _____ Division has nonconcurred that any corrective action is necessary on the basis that the recommended prosecutes are already in place. However, their comments do not adequately address the issue that the review and approval process was not documented on the SPK Forms 84 included in our audit sample. Therefore, in the memorandum at TAB A, the following actions are being required: (i) the existing prosecutes and instructions will be reviewed to assure that they are clear and adequate and (ii) the _____ Division will review the completed SPK Forms 84 in the future to assure that the necessary signatures are included on the form. If the IRAC

USACE Suppl 1
to AR 11-7
5 Jan 95

Office follow-up review discloses continued lack of proper documentation of supervisory review and approval of the initial AERC determinations, further corrective action will be required at that time.

4. COORDINATION.

_____	Div.	CONCUR/NONCONCOUR	_____	(Name)	_____	(Date)
_____	Div.	CONCUR/NONCONCUR	_____	(Name)	_____	(Date)
_____	Div.	CONCUR/NONCONCUR	_____	(Name)	_____	(Date)

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

USACE Suppl 1
to AR 11-7
5 Jan 95

EXAMPLE OF ACTION MEMORANDUM

Office Symbol

Date

MEMORANDUM FOR _____ Div.
_____ Div.
_____ Div.

SUBJECT: Resolution of Audit Report No. _____, Review
of the Architect-Engineer Responsibility Management Program.

I have reviewed the subject report and made the following
determinations regarding action to be taken on the
recommendations as referenced below:

a. Recommendations A-1, B-1, B-2, D-1 and D-3. The
management comments are responsive and the proposed corrective
actions should be implemented as indicated therein.

b. Recommendations C-1 and C-2. The management comments
do not adequately address the issue of potential noncompliance
with HQUSACE policy for computation of damages resulting from
identified A-E liability. Therefore, the _____ Division
will prepare a letter to HQUSACE, for my signature, setting
forth the District's procedures for computing damages and
requesting HQUSACE concurrence or suggested changes. Upon
receipt of the HQUSACE response, the _____ Division will
submit a final coordinated position paper on these recommenda-
tions for my approval. In the meantime, the _____
Division will proceed to implement the first part of Recom-
mendation C-1, i.e., to establish procedures to capture and
record all costs incurred to pursue an A-E liability case and
to footnote damage computations to show source of data
contained therein.

c. Recommendation D-2. The management comments do not
adequately address the issue of apparent non-compliance with
prescribed procedures based upon the audit results. Therefore
the following actions will be taken to assure that A-E
liability determinations receive proper supervisory review and

USACE Suppl 1
to AR 11-7
5 Jan 95

approval: (i) the existing procedures and instructions will be reviewed to assure that they are clear and adequate and (ii) the_____ Division will review the completed SPK Forms 84

in the future to assure that the necessary signatures are included on the forms. If the IRAC Office follow-up review discloses continued lack of proper documentation of supervisory review and approval of the initial AERC determinations, further corrective action will be required at that time.

Commander